

ORIGINAL

EXCEPTION



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BEFORE THE ARIZONA CORPORATION CO.

COMMISSIONERS

DOUG LITTLE - Chairman
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN

Arizona Corporation Commission

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IN THE MATTER OF THE COMMISSION'S
INVESTIGATION OF VALUE AND COST OF
DISTRIBUTED GENERATION.

DOCKET NO. E-00000J-14-0023

STAFF'S REQUEST FOR
CLARIFICATION/MODIFICATION

I. INTRODUCTION.

Staff supports the Recommended Opinion and Order ("ROO") in this matter. The ROO contains a detailed analysis of the positions of the various parties in this docket and a well-reasoned determination of the Value of Solar ("VOS") methodologies to be used in upcoming rate cases. Staff commends the Administrative Law Judge for the significant effort and careful synthesis of the positions in this case and for the balanced and thoughtful decision that resulted.

Staff has four requests for clarification/modification relating to: 1) the transition from net metering to an export rate, 2) the timing for Staff's analysis, 3) a Phase II collaborative process in this case, and 4) grandfathering.

II. DISCUSSION.

A. The ROO's Adoption Of Both Staff Methodologies Will Provide Maximum Flexibility To The Commission; However The Resource Comparison Proxy Methodology Should Be Utilized Initially Because It Will Provide For A More Gradual Transition.

The ROO adopts both of Staff's recommended VOS methodologies: a five year avoided cost methodology and the Resource Comparison Proxy methodology. The five year avoided cost methodology incorporates a limited forecast of the benefits and costs of DG for purposes of valuing solar. The Resource Comparison Proxy methodology is based upon a five year weighted average of the utility's solar PPAs and utility-owned solar generating resources.

1 Staff continues to believe that adoption of both approaches will give the Commission
2 maximum flexibility on issues informed by the value of solar methodology. However, the
3 methodology utilized initially should provide for a gradual transition to the export rate concept.
4 Staff believes that the Resource Comparison Proxy methodology will provide the type of gradual
5 transition that is contemplated by the ROO.

6 Of the two Staff methodologies, the Resource Comparison Proxy methodology will likely
7 produce an export rate that is initially closer to the retail rate of the electric utilities than the five year
8 avoided cost methodology. It is based upon an accurate and reliable indication of a utility's costs
9 associated with its solar generation facilities, including both PPAs and utility-owned facilities.¹ Of
10 the two Staff approaches, this approach might be viewed as the ceiling of the two approaches. Staff's
11 five year avoided cost approach, on the other hand, could be viewed as the floor of the two
12 approaches.

13 Staff noted that use of the Resource Comparison Proxy methodology will provide a suitable
14 proxy to utilize pending further effort by the parties on the parameters of the five year avoided cost
15 methodology and its locational adders.² While the ROO requires use of Exhibit HS-3 (page 3) for
16 development of the five year avoided cost calculation, there will need to be further discussion among
17 the parties on how the factors listed are to be utilized and determined. Thus, use of the Resource
18 Comparison Proxy methodology, which is a reliable avoided cost proxy, will allow the Commission
19 to proceed forward on a gradual transitional path³ to the export rate concept while allowing work to
20 continue on the development of the five year avoided cost calculation.

21 As the ROO notes, the Resource Comparison Proxy methodology can also be adapted for use
22 with smaller utilities such as cooperatives as well, by utilizing pricing data from available industry
23

24 ¹ The Resource Comparison Proxy methodology (utilizing all of the utilities solar sources on an
25 ongoing basis) will always be a useful benchmark because it provides a depiction of the utilities'
weighted average cost of its solar PPAs and utility owned solar facilities.

26 ² Value of Solar ROO at 104.

27 ³ Since it is based upon a 5 year rolling average, older projects will eventually drop out, and some
28 intervention or adjustment may be necessary to continue to ensure a gradual transition if the drop off
is too dramatic in future rate cases. For instance, adjustment could be made in terms of the projects
utilized and the number of years included in the calculation.

1 sources for grid-scale solar PV projects with priority given to projects in Arizona to the extent
2 available.⁴

3 In summary, because the ROO wisely emphasizes the need for a transition with any approach
4 adopted, Staff believes that the Resource Comparison Proxy methodology is the appropriate
5 methodology to utilize initially for each electric utility. Staff respectfully requests that the ROO
6 provide for adoption of both Staff methodologies, but that it require use of the Resource Comparison
7 Proxy methodology in the on-going round of rate cases to determine the export rate.
8

9 **B. The Process Adopted In The ROO Should Provide Staff With More Time To
10 Develop Its Analysis.**

11 The ROO at pages 152-153 discusses implementation of the methodologies in utility rate
12 cases. Staff is required to within 45 days of receipt of the underlying data provided by the utility: “1)
13 perform the analysis, 2) make all assumptions and inputs of its analysis available to others, and, 3)
14 file a request for procedural order setting a procedural schedule for evidentiary proceedings.” To
15 complete its analysis and perform the calculations required, Staff respectfully requests that it be given
16 120 days at least for the on-going round of rate cases where this issue is addressed.

17 While the initial round of rate cases where the new methodology is utilized should focus on
18 the Resource Comparison Proxy methodology, Staff will be performing this analysis for the first time
19 and thus extra time would be helpful. In addition, if Staff needs additional information from that
20 provided by the utilities, the added time will allow for this eventuality. In addition, in the initial
21 round of implementation, this analysis will need to be performed by Staff for all of the electric
22 utilities with rate cases pending at this time. In addition to the APS rate case, three other cases with
23 Phase II proceedings are likely or already have been ordered: UNS Electric (“UNSE”), Tucson
24 Electric Power Company (“TEP”) and Sulphur Springs Valley Electric Cooperative (“SSVEC”).
25 There is also the Trico Electric Cooperative, Inc. (“Trico”) rate case where a decision will be
26 forthcoming in the next few months. Since the same Staff members will likely be performing this
27

28 ⁴ Value of Solar ROO at 151.

1 analysis for all companies, the added time for each case will ensure Staff has sufficient time to
2 process the cases in a timely manner.

3 **C. The Commission Should Consider a Phase II In this Case for Collaboration on**
4 **the Development of the Avoided Cost Methodology and its Locational Adders.**

5 Staff believes that it may be worthwhile for the Commission to consider a collaborative
6 process in which the parties could come to agreement on the parameters of the five year avoided cost
7 methodology. In addition, such a collaborative workshop process would be helpful to look at
8 geographic considerations and locational adders and come up with a more definitive process for
9 looking at and calculating benefits on a geographic location basis. Locational adders are based on the
10 configuration of the electrical distribution system (including losses) and its evolving growth and
11 needs. It does not follow a zip code or municipal boundary. A critical mass of DG (potentially
12 controllable) is needed to offset expected new equipment.

13 It may also be productive in this process to look at how the utilities' Integrated Resource Plans
14 ("IRPs") might be utilized in conjunction with some of the issues presented in this docket and how
15 DG considerations can be most effectively assimilated in the IRP process.

16 It would be difficult to undertake this type of collaborative process within a rate case since the
17 timeline may not be conducive with this type of process.

18 **D. Grandfathering of Rate Design is More Appropriately Considered in a Rate Case.**

19 Staff interprets the ROO as requiring grandfathering of both rate design and net metering for
20 existing DG customers who sign up for interconnection before the date of the Commission's Decision
21 in Phase II proceedings, or the first rate case in which the new methodology is adopted.⁵

22 While the ROO acknowledges that grandfathering decisions should be made in the context of
23 a rate case, it goes on to require grandfathering of both rate design and net metering for customers
24 signing up for interconnection before the date of the Commission's Decision in Phase II proceedings.
25 Staff believes that the decision to grandfather rate design is best left to each company's rate case.

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27
28 ⁵ Value of Solar ROO at 153-54.

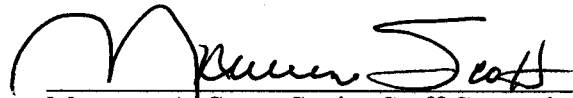
1 Only in the context of a rate case where all other rate determinations are made, can one determine
2 whether grandfathering of rate design is appropriate.

3 Finally, Staff interprets the phrase on page 154 of the ROO that grandfathered DG customers
4 will be "subject to currently-existing rules and regulations impacting DG" to mean that grandfathered
5 DG customers will be subject to currently-existing net metering rules and regulations.⁶

6 **III. CONCLUSION.**

7 In summary, Staff supports the Recommended Opinion and Order. It is a well-reasoned,
8 balanced and thoughtful decision. Staff respectfully requests that consideration be given to the
9 requests for clarification/modification discussed above.

10 RESPECTFULLY SUBMITTED this fifteenth day of November 2016.

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17 On this 15th day of November, 2016, the foregoing document was filed with Docket Control as an
18 Utilities Division Comments on Recommended Opinion and Order, and copies of the foregoing were
19 mailed on behalf of the Utilities Division to the following who have not consented to email service.
On this date or as soon as possible thereafter, the Commission's eDocket program will automatically
email a link to the foregoing to the following who have consented to email service.

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28 ⁶ See also Value of Solar ROO at 171.

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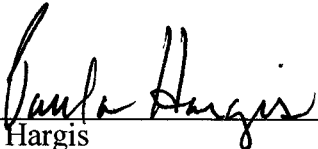
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